Financial Stability Risk Measurement

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Remarks and slides are my views, not those of the Federal Reserve.

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Three themes

- NonCrisis State AND Crisis State
- MacroPru Indicators AND Tools

Permutations

- Data AND Analysis Together

- Main takeaway: Data planning needs a multidimensional foundation

Until Recently, Reductionism

- Pre-crisis focus on crisis prevention continued
  - Imbalances before they cause a crisis
  - Potential remedies for imbalances
- Current situation has revealed incompleteness
  - Indicators of, e.g. excess credit growth are less of a focus when in crisis
  - Manage the crisis

1. Two State World

- ## Noncrisis state
  - Most of the time
  - Focus on prevention (and preparation)
    - Don't slide in
    - Don't fall back in after escaping…finish the cure
- ## Crisis state
  - Infrequent (but may last longer than we think)
  - Focus on cure
    - Get out fast, limiting immediate costs to society
    - Try to limit bad side-effects on prevention, other things

Implication

- Crucial to know the current state
- Crucial to know not only the likelihood of sliding in, but also of backsliding before crisis is fully cured
  - Switching back too soon to the normal focus and toolset can increase the likelihood of backsliding
- We need data AND tools to measure the state, and completeness of cure

2. MacroPru Indicators AND Tools

- Tools: Ways to affect private sector (and government) behavior, conditional on indicators
  - Until recently, more effort on indicators than tools
  - Obviously need tools, more work on tools now underway
- Most focus on tools for noncrisis state
- Tools for the crisis state are crucial
  - Rapid, effective crisis management has enormous benefits

Data must support crisis tools

- Data of high value in supporting crisis-state tools may be of less value in noncrisis state
  - Examples:
    - Network data
    - Exposure data
    - Liquidity-related data
    - Anything helping understanding of confidence

- Think hard about such data

3. Field of Dreams

- "If you build the data, they (uses, wisdom) will come"
  - I believe…
  - But it's not enough

- Leapfrog

- Mutual enhancement

Conclusion

- Both data and analysis need multidimensional focuses, foundations
  - Today's agenda: Mostly non-crisis state, mostly indicators and standard tools
    - Makes sense, it's the state of the art
  - Seize the opportunity
    - Let's push the boundaries outward